

PERAC AUDIT REPORT



Southbridge Contributory Retirement System

JAN. 1, 2005 - DEC. 31, 2006



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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August 14, 2007

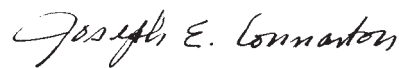
The Public Employee Retirement Administration Commission has completed an examination of the Southbridge Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2005 to December 31, 2006. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission, in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission. There were no significant findings to report.

We commend the Southbridge Retirement Board for the exemplary operation of the system.

In closing, I acknowledge the work of examiner Richard Ackerson who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton
Executive Director



STATEMENT OF LEDGER ASSETS AND LIABILITIES

AS OF DECEMBER 31,		
	2006	2005
Net Assets Available For Benefits:		
Cash	\$1,292,888	\$948,751
Short Term Investments	1,408	0
Pooled Domestic Equity Funds	12,963,223	11,589,602
Pooled International Equity Funds	3,894,508	1,964,464
Pooled Domestic Fixed Income Funds	5,360,362	6,342,209
Pooled Real Estate Funds	2,474,978	1,811,752
Interest Due and Accrued	2	0
Accounts Receivable	4,020	214,971
Accounts Payable	(12,683)	(26,876)
Total	<u>\$25,978,708</u>	<u>\$22,844,872</u>
Fund Balances:		
Annuity Savings Fund	\$7,981,684	\$7,732,235
Annuity Reserve Fund	2,183,717	1,909,867
Pension Fund	568,105	658,604
Military Service Fund	0	0
Expense Fund	0	0
Pension Reserve Fund	15,245,202	12,544,166
Total	<u>\$25,978,708</u>	<u>\$22,844,872</u>

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2005)	\$7,202,250	\$1,975,358	\$672,701	\$0	\$0	\$11,614,126	\$21,464,434
Receipts	1,003,748	57,405	1,995,766	0	220,378	919,260	4,196,557
Inter Fund Transfers	(140,534)	129,753	0	0	0	10,781	0
Disbursements	<u>(333,230)</u>	<u>(252,648)</u>	<u>(2,009,863)</u>	<u>0</u>	<u>(220,378)</u>	<u>0</u>	<u>(2,816,119)</u>
Ending Balance (2005)	\$7,732,235	\$1,909,867	\$658,604	\$0	\$0	\$12,544,166	\$22,844,872
Receipts	1,037,793	59,906	2,127,127	0	242,957	2,689,174	6,156,955
Inter Fund Transfers	(502,248)	490,386	0	0	0	11,862	0
Disbursements	<u>(286,096)</u>	<u>(276,442)</u>	<u>(2,217,625)</u>	<u>0</u>	<u>(242,957)</u>	<u>0</u>	<u>(3,023,120)</u>
Ending Balance (2006)	<u>7,981,684</u>	<u>2,183,717</u>	<u>568,105</u>	<u>0</u>	<u>0</u>	<u>15,245,202</u>	<u>25,978,708</u>

STATEMENT OF RECEIPTS

FOR THE PERIOD ENDING DECEMBER 31,		
	2006	2005
Annuity Savings Fund:		
Members Deductions	\$916,139	\$866,242
Transfers from Other Systems	38,317	80,214
Member Make Up Payments and Re-deposits	38,570	14,878
Member Payments from Rollovers	0	0
Investment Income Credited to Member Accounts	<u>44,767</u>	<u>42,415</u>
Sub Total	<u>1,037,793</u>	<u>1,003,748</u>
Annuity Reserve Fund:		
Investment Income Credited to the Annuity Reserve Fund	<u>59,906</u>	<u>57,405</u>
Pension Fund:		
3 (8) (c) Reimbursements from Other Systems	15,810	43,246
Received from Commonwealth for COLA and Survivor Benefits	111,317	152,520
Pension Fund Appropriation	<u>2,000,000</u>	<u>1,800,000</u>
Sub Total	<u>2,127,127</u>	<u>1,995,766</u>
Military Service Fund:		
Contribution Received from Municipality on Account of Military Service	0	0
Investment Income Credited to the Military Service Fund	<u>0</u>	<u>0</u>
Sub Total	<u>0</u>	<u>0</u>
Expense Fund:		
Expense Fund Appropriation	0	0
Investment Income Credited to the Expense Fund	<u>242,957</u>	<u>220,378</u>
Sub Total	<u>242,957</u>	<u>220,378</u>
Pension Reserve Fund:		
Federal Grant Reimbursement	0	34,822
Pension Reserve Appropriation	0	0
Interest Not Refunded	1,431	1,059
Miscellaneous Income	279	62
Excess Investment Income	<u>2,687,464</u>	<u>883,317</u>
Sub Total	<u>2,689,174</u>	<u>919,260</u>
Total Receipts	<u>\$6,156,955</u>	<u>\$4,196,557</u>

STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,		
	2006	2005
Annuity Savings Fund:		
Refunds to Members	\$188,605	\$93,772
Transfers to Other Systems	<u>97,491</u>	<u>239,458</u>
Sub Total	<u>286,096</u>	<u>333,230</u>
Annuity Reserve Fund:		
Annuities Paid	276,442	252,648
Option B Refunds	<u>0</u>	<u>0</u>
Sub Total	<u>276,442</u>	<u>252,648</u>
Pension Fund:		
Pensions Paid:		
Regular Pension Payments	1,395,505	1,286,763
Survivorship Payments	62,990	83,927
Ordinary Disability Payments	0	0
Accidental Disability Payments	500,496	554,546
Accidental Death Payments	117,871	0
Section 101 Benefits	29,740	0
3 (8) (c) Reimbursements to Other Systems	111,024	84,627
State Reimbursable COLA's Paid	0	0
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>
Sub Total	<u>2,217,625</u>	<u>2,009,863</u>
Military Service Fund:		
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>
Expense Fund:		
Board Member Stipend	10,000	0
Salaries	50,105	45,779
Legal Expenses	5,691	4,342
Medical Expenses	0	0
Travel Expenses	3,559	5,069
Administrative Expenses	19,077	26,202
Furniture and Equipment	1,600	0
Management Fees	108,135	100,231
Custodial Fees	22,489	19,246
Consultant Fees	22,000	16,500
Service Contracts	300	1,085
Fiduciary Insurance	<u>0</u>	<u>1,923</u>
Sub Total	<u>242,957</u>	<u>220,378</u>
Total Disbursements	<u>\$3,023,120</u>	<u>\$2,816,119</u>

INVESTMENT INCOME

FOR THE PERIOD ENDING DECEMBER 31,		
	2006	2005
Investment Income Received From:		
Cash	\$13,170	\$11,166
Short Term Investments	2	0
Fixed Income	0	0
Equities	989	0
Pooled or Mutual Funds	0	0
Commission Recapture	0	0
Total Investment Income	<u>14,161</u>	<u>11,166</u>
Plus:		
Realized Gains	0	0
Unrealized Gains	3,648,152	2,395,705
Interest Due and Accrued on Fixed Income Securities - Current Year	2	0
Sub Total	<u>3,648,154</u>	<u>2,395,705</u>
Less:		
Paid Accrued Interest on Fixed Income Securities	0	0
Realized Loss	0	0
Unrealized Loss	(627,220)	(1,203,356)
Interest Due and Accrued on Fixed Income Securities - Prior Year	0	0
Sub Total	<u>(627,220)</u>	<u>(1,203,356)</u>
Net Investment Income	<u>3,035,096</u>	<u>1,203,515</u>
Income Required:		
Annuity Savings Fund	44,767	42,415
Annuity Reserve Fund	59,906	57,405
Military Service Fund	0	0
Expense Fund	242,957	220,378
Total Income Required	<u>347,629</u>	<u>320,198</u>
Net Investment Income	<u>3,035,096</u>	<u>1,203,515</u>
Less: Total Income Required	<u>347,629</u>	<u>320,198</u>
Excess Income To The Pension Reserve Fund	<u>\$2,687,466</u>	<u>\$883,317</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2006			
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED*
Cash	\$1,292,888	5.0%	
Short Term	1,408	0.0%	
Pooled Domestic Equity Funds	12,963,223	49.9%	50%
Pooled International Equity Funds	3,894,508	15.0%	10%
Pooled Domestic Fixed Income Funds	5,360,362	20.6%	
Pooled Real Estate Funds	2,474,978	9.5%	
Grand Total	<u>\$25,987,368</u>	<u>100.0%</u>	

* At time of purchase

For the year ending December 31, 2006, the rate of return for the investments of the Southbridge Retirement System was 13.18%. For the five-year period ending December 31, 2006, the rate of return for the investments of the Southbridge Retirement System averaged 8.17%. For the 22-year period ending December 31, 2006, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Southbridge Retirement System was 9.90%.

SUPPLEMENTARY INVESTMENT REGULATIONS

The Southbridge Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on:

November 8, 1989

20.03(1) Equity investments shall not exceed 50% of the total book value of the portfolio at the time of purchase.

September 1, 1994

20.03(1) (a) Domestic equities shall not exceed 50% of the total book value of the portfolio at the time of purchase.

(b) International equities shall not exceed 10% of the total book value of the portfolio at the time of purchase

20.04(1) United States based corporations and equities of foreign corporations.

20.07(5) Equity investments shall be made only in securities listed on a United States stock exchange, traded over the counter in the United States, or listed and traded on a foreign exchange.

October 23, 2003

16.08 In accordance with PERAC Investment Guideline 99-2, the Southbridge Retirement Board is authorized to make a minor modification to its fixed income mandate with Freedom Capital Management Company. The board will change from the Core Portfolio to the Core Plus Opportunistic Portfolio, offering the Board limited exposure to high yield and international bonds when the manager sees value in these sectors. Also under that Guideline, the Board is modifying its large cap equity mandate with Freedom Capital. Under the board's current investment, the Equity Style Fund, the board has predominant exposure to either large cap growth or large cap value stocks. Under the new "Core Equity Management" product, the investment universe, portfolio management team, and benchmark remain unchanged but the board will have greater diversification between growth and value and, therefore, less portfolio volatility over time.

January 11, 2006

16.08 In accordance with Investment Guideline 99-2, the Southbridge Retirement Board is authorized to make a minor modification to its large cap equity mandate with Freedom Capital Management Company. The Board will supplement its existing investments in Freedom Capital's Large Cap Growth Fund, Large Cap Value Fund, and Equity Style Fund with an allocation to Freedom Capital's "Style-Weighted Concentrated Fund". This fund invests in the same large cap universe as the existing funds and has the same benchmark as the Equity Style Fund, but has a more concentrated portfolio that represents Freedom's best ideas for both growth and value stocks.

SUPPLEMENTARY INVESTMENT REGULATIONS (CONTINUED)

February 13, 2007

Notwithstanding the provisions of the Public Employee Retirement Administration Commission regulations, the Southbridge Retirement Board may invest funds of the Retirement System (the "System") in the fund known as INVESCO Core Real Estate USA, LLC (the "Fund"), and effective as of the date of the initial investment by the System of any of its assets in the Fund, while the assets of the System are so invested, the assets of the System shall be deemed to include, for purposes of applying the rules set forth in 840 CMR 16.00 et seq. and 17.00 et seq., the System's interest in the Fund but not any of the underlying assets of the Fund; provided that, at all times, the Fund qualified as a "venture capital operating company" within the meaning of the Employee Retirement Income Security Act of 1974, as amended, and the regulations promulgated hereunder.

February 14, 2007

17.03 Notwithstanding the provisions of the Public Employee Retirement Administration Commission regulations, the Southbridge Retirement Board may invest funds of the Retirement System (the "System") in the fund known as the Institutional Retirement Trust (IRT) International Equity Trust (the "Fund"), and effective as of the date of the initial investment by the System of any of its assets in the Fund, while the assets of the System are so invested, the activities and investments of the Fund, directly or indirectly, shall be deemed to satisfy the prohibited transaction rules set forth in 840 CMR 16.00 et seq. and 840 CMR 17.03 to the extent such activities satisfy the prohibited transaction rules set forth in Section 406 of the U.S. Employee Retirement Income Security Act of 1974, as amended ("ERISA"), taking into account ERISA Section 408(b)(8) as well as other statutory exemptions under ERISA, and Prohibited Transaction Class exemption 84-14, as amended, Prohibited Transaction Class Exemption 91-38, and other available class exemptions.

February 14, 2007

17.03 Notwithstanding the provisions of the Public Employee Retirement Administration Commission regulations, the Southbridge Retirement Board may invest funds of the Retirement System (the "System") in the fund known as the Institutional Retirement Trust (IRT) Equity Real Estate Securities Trust (the "Fund"), and effective as of the date of the initial investment by the System of any of its assets in the Fund, while the assets of the System are so invested, the activities and investments of the Fund, directly or indirectly, shall be deemed to satisfy the prohibited transaction rules set forth in 840 CMR 16.00 et seq. and 840 CMR 17.03 to the extent such activities satisfy the prohibited transaction rules set forth in Section 406 of the U.S. Employee Retirement Income Security Act of 1974, as amended ("ERISA"), taking into account ERISA Section 408(b)(8) as well as other statutory exemptions under ERISA, and Prohibited Transaction Class Exemption 84-14, as amended, Prohibited Transaction Class Exemption 91-38, and other available class exemptions.

NOTES TO FINANCIAL STATEMENTS

NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Southbridge Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

ADMINISTRATION

There are 106 contributory Retirement Systems for public employees in Massachusetts. Each system is governed by a retirement board, and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements, and a uniform accounting and funds structure for all systems.

PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal, or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 3 classes of membership in the Retirement System:

Group 1:

General employees, including clerical, administrative, technical, and all other employees not otherwise classified.

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of \$30,000.

RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire at age 65. There is no mandatory retirement age for employees in Group 1.

SUPERANNUATION RETIREMENT

A member is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2

NOTES TO FINANCIAL STATEMENTS (Continued)

AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year average salary. For veterans as defined in G.L. c. 32, §. 1, there is an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

- Salary is defined as gross regular compensation.
- Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last three years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age, but the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.

DEFERRED VESTED BENEFIT

A participant who has completed 10 or more years of creditable service is eligible for a deferred vested retirement benefit. Elected officials and others who were hired prior to 1978 may be vested after 6 years in accordance with G.L. c. 32, §. 10.

The participant's accrued benefit is payable commencing at age 55, or the completion of 20 years, or may be deferred until later at the participant's option.

WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. Employees who first become members on or after January 1, 1984, may receive only limited interest on their contributions if they voluntarily terminate their service. Those who leave service with less than 5 years receive no interest; those who leave service with greater than 5 but less than 10 years receive 50% of the interest credited.

NOTES TO FINANCIAL STATEMENTS (Continued)

DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

ORDINARY DISABILITY

Eligibility: Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, §. 6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching “maximum age”.

Retirement Allowance: Equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

ACCIDENTAL DISABILITY

Eligibility: Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$611.28 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, §. 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member’s retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution.

NOTES TO FINANCIAL STATEMENTS (Continued)

ACCIDENTAL DEATH

Eligibility: Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$312 per year, per child, payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries resulting in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death.

In addition, an eligible family member may receive a one time payment of \$100,000.00 from the State Retirement Board.

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000.

DEATH IN ACTIVE SERVICE

Allowance: An immediate allowance equal to that which would have been payable had the member retired and elected Option C on the day before his or her death. For death occurring prior to the member's superannuation retirement age, the age 55 benefit rate is used. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is \$3,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of \$1,440 per year for the first child, and \$1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

NOTES TO FINANCIAL STATEMENTS (Continued)

COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. The first \$12,000 of a retiree's total allowance is subject to a cost-of-living adjustment. The total Cost-of-Living adjustment for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

Option A: Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

Option B: A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

Option C: A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who remains unmarried for a member whose retirement becomes effective on or after February 2, 1992, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up") based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

NOTES TO FINANCIAL STATEMENTS (Continued)

ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Southbridge Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on:

January 19, 1999

ELECTION RULES ELECTION TIMETABLE.

An election for the elected members of the Southbridge Retirement Board must take place at the end of each board member's three-year term or upon a vacancy caused by resignation or death of an elected member. The notice of election shall be posted 90 days prior to the election.

If the retirement board misses the 90-day notice period, the board may write to PERAC for approval of a supplementary regulation authorizing the use of a reduced notice period. Upon review of all the facts, PERAC may approve a supplementary regulation, which authorizes a notice period less than 90 days but greater than 45 days. If a term expires in less than 45 days, the elected member shall continue to serve beyond the time of his/her term until a new member is elected.

POSTING OF THE ELECTION NOTICE

The Southbridge Retirement System shall mail a notice to each member (active, retired, and inactive).

The election notice must include the date, time, and manner of the election and shall describe nomination and election procedures.

APPOINTMENT OF ELECTION OFFICER

The Southbridge Retirement Board shall appoint the Executive Secretary of the retirement board as an election officer to coordinate all election activity. Any person who is aggrieved by a determination made by the election officer may appeal to the retirement board.

ELIGIBILITY TO SERVE ON RETIREMENT BOARD

Any active or retired member is eligible to serve as the elected member of the retirement system. Individuals receiving non-contributory pensions (because their allowance is paid by the community and not the retirement system) or individuals receiving survivor benefits are NOT eligible to run for the position.

NOMINATIONS

Any active or retired member may qualify as a candidate by filing with the retirement board nomination papers containing the signatures and addresses of at least twenty (20) members of the retirement system. The retirement board shall verify that those signing the nomination papers are in fact members of the retirement system. Nomination papers must be signed by the candidate.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

Any person submitting less than the required number of qualified signatures, shall not be considered a candidate and shall be notified of their failure to qualify. If all candidates fail to meet the nomination requirements prior to the deadline, the nomination period shall remain open until the first Monday following the date the first candidate qualifies.

Nomination papers shall be made available 90 days prior to the election unless a supplementary regulation is approved by PERAC. Completed nomination papers must be submitted no later than 45 days prior to the election.

WHEN ONLY ONE CANDIDATE FILES NOMINATION PAPERS

When only one qualified candidate files nomination papers, said individual shall be declared the winner and an election need not be held. Notice to PERAC of the new or reelected member must be provided.

ELECTION BALLOT

If more than one candidate qualifies; an election ballot must be prepared. The order of the names on the ballot must be determined by a random drawing. The random drawing shall be done by the election officer and will be accomplished by placing the names of qualified candidates into a container and drawing one at a time. The incumbent (if there is one) has the right to be identified as such on the ballot.

CONDUCTING THE ELECTION

The Southbridge Retirement Board shall conduct their elections by mail; all active, inactive and retired members shall be mailed a ballot. In addition to the ballot, the election package shall include a return envelope, which contains a space where the voter must sign his or her name to indicate that he/she is a qualified voter. The return envelope will also contain a space for the return address in the upper left-hand corner. The Southbridge retirement system shall not provide postage on the return envelope.

To ensure that voters cannot be identified, the Southbridge Retirement Board shall include a separate inside envelope in which the ballot will be placed. The sealed ballot envelope (which contains no signature) is then placed inside the outer envelope, which the member must sign. Upon receipt of the ballot by the election officer, the outer envelope is used to verify the voter; the outer envelopes will then be sorted between active, retired, and inactive members and then placed in alphabetical order. On election day, the outer envelope will be opened and the sealed ballot envelope will be placed in a ballot box.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

COUNTING OF BALLOTS

Only the election officer (Executive Secretary) or his/her designee shall count ballots. The retirement board shall notify all candidates in advance of the time and place of the ballot tabulation. The candidates or their representatives may be present and may observe the counting process.

DISQUALIFIED BALLOTS

- . Ballots are considered disqualified if:
- . Ballot envelope contains no name
- . Ballot is not returned in the envelope provided
- . Ballot cannot be verified as being submitted by a member in service or a retiree
- . Ballot of member or retiree voting more than once
- . Ballot is received after the deadline
- . Ballot contains identifying data of the voter
- . Ballot contains more than one "X"
- . Ballot has been defaced such that the voter's choice of candidate is ambiguous

ELECTION RESULTS

The retirement board shall notify all candidates of the election results in writing within 7 days after the election. Written notice should be provided even if the candidates were present when the election results were determined.

APPEAL OF ELECTION RESULTS

Any candidate appealing the election results or any aspect of the election proceedings shall file an appeal with the retirement board within 7 working days.

The Election Officer shall preserve all ballots received by the retirement board for 90 days following the determination of the election results. The Election Officer shall then destroy ballots.

July 30, 1999

Buy-Backs

In all cases involving part time, stipend, provisional, temporary provisional, seasonal, or intermittent employment or service of any employee in any governmental unit [prior to membership], said [member] shall be entitled to buy back said service, provided that (1) said [member] was later appointed to full time service, (2) said [member] worked at least 20 hours per week, (3) said [member] pays back into the system an amount equal to that which would have been deducted from wages plus interest. The Southbridge Retirement Board shall determine how much service in any calendar year is equivalent to a year of service.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

August 27, 1999

Military Buy-Backs

All members who are eligible veterans under Chapter 71 of the Acts of 1996, shall have the following option on the purchase of their military time. Payment shall be made in a lump sum within three (3) years of the date of their application to purchase their military time. Failure to make payment within this time period shall result in forfeiture of the right to purchase such service.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five person Board of Retirement consisting of the Town Accountant who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex-officio Member: Karen Harnois

Appointed Member: Melinda Ernst-Fournier Term Expires: 12/23/09

Elected Member: Julie A. Pena Term Expires: 07/19/08

Elected Member: George P. Fournier Term Expires: 01/03/09

Appointed Member: Peter Hapgood Term Expires: 01/03/09

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:)	
Ex-officio Member:)	\$50,000,000 Fiduciary
Elected Member:)	\$1,000,000 Fidelity
Appointed Member:)	MACRS Policy
Staff Employee:)	

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by PERAC as of January 1, 2006.

The actuarial liability for active members was	\$23,719,494
The actuarial liability for retired members was	<u>20,382,122</u>
The total actuarial liability was	44,101,616
System assets as of that date were	<u>22,976,815</u>
The unfunded actuarial liability was	<u>\$21,124,801</u>
 The ratio of system's assets to total actuarial liability was	 52.1%
As of that date the total covered employee payroll was	\$10,089,006

The normal cost for employees on that date was 8.26% of payroll

The normal cost for the employer was 5.95% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.00% per annum

Rate of Salary Increase: Varies

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2006

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2006	\$22,976,815	\$44,101,616	\$21,124,801	52.1%	\$10,089,006	209.4%
1/1/2004	\$20,295,180	\$40,239,767	\$19,944,587	50.4%	\$9,736,750	204.8%
1/1/2003	\$16,790,105	\$39,455,878	\$22,665,773	42.6%	\$9,162,439	247.4%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Retirement in Past Years										
Superannuation	6	9	7	5	1	2	15	1	4	8
Ordinary Disability	0	0	0	0	0	0	0	0	0	0
Accidental Disability	0	0	0	2	2	0	1	0	0	0
Total Retirements	6	9	7	7	3	2	16	1	4	8
Total Retirees, Beneficiaries and Survivors	138	146	150	148	152	156	160	156	150	154
Total Active Members	314	323	318	354	310	339	314	315	301	323
Pension Payments										
Superannuation	\$669,323	\$670,230	\$739,982	\$779,438	\$885,956	\$812,903	\$1,236,666	\$1,201,890	\$1,286,763	\$1,395,505
Survivor/Beneficiary Payments	23,987	31,417	33,636	42,746	42,746	45,733	35,939	54,959	83,927	62,990
Ordinary Disability	0	0	0	0	0		0	0	0	0
Accidental Disability	247,199	251,336	246,660	330,858	330,858	413,732	444,129	412,589	554,546	500,496
Other	<u>305,152</u>	<u>304,921</u>	<u>326,344</u>	<u>405,678</u>	<u>428,985</u>	<u>493,032</u>	<u>309,415</u>	<u>332,749</u>	<u>84,627</u>	<u>258,634</u>
Total Payments for Year	<u>\$1,245,661</u>	<u>\$1,257,904</u>	<u>\$1,346,622</u>	<u>\$1,558,720</u>	<u>\$1,688,545</u>	<u>\$1,765,400</u>	<u>\$2,026,149</u>	<u>\$2,002,188</u>	<u>\$2,009,863</u>	<u>\$2,217,625</u>

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